

**COCHISE COUNTY, ARIZONA**  
**Single Audit Reporting Package**  
**June 30, 2003**

**COCHISE COUNTY, ARIZONA**  
**Single Audit Reporting Package**  
**June 30, 2003**

<b>Table of Contents</b>	<b>Page</b>
<b><u>Introductory Section</u></b>	
Letter of Transmittal.....	2-4
<b><u>Financial Section</u></b>	
Independent Auditors' Report.....	6-7
Required Supplementary Information—Management’s Discussion and Analysis	9-18
<b>Government-Wide Financial Statements</b>	
Statement of Net Assets.....	20
Statement of Activities.....	21
<b>Fund Financial Statements</b>	
Balance Sheet-Governmental Funds.....	22
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental funds.....	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	24
Statement of Net Assets – Proprietary Funds.....	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	26
Statement of Cash Flows – Proprietary Funds.....	27-28
Statement of Fiduciary Net Assets – Trust and Agency Funds.....	29
Statement of Changes in Fiduciary Net Assets – Trust Fund.....	30
Combining Statement of Net Assets of Component Units.....	31
Combining Statement of Activities of Component Units.....	32
<b>Notes to Financial Statements.....</b>	<b>33-56</b>
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedules – General Fund.....	58
Highway and Streets Fund.....	59
Notes to Budgetary Comparison Schedules.....	60
Schedule of Agent Retirement Plans’ Funding Progress.....	61
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards.....	63-65
Notes to Schedule of Expenditures of Federal Awards.....	66

**COCHISE COUNTY, ARIZONA**  
**Single Audit Reporting Package**  
**June 30, 2003**

**(Continued)**

**Single Audit Reports**

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	69-70
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	71-72
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results.....	73
Financial Statement Findings.....	74
Federal Award Findings and Questioned Costs.....	75

**County Responses**

Corrective Action Plan.....	76
Summary Schedule of Prior Audit Year Findings.....	77-78

## INTRODUCTORY SECTION



Finance Director  
Email: [lbacke@co.cochise.az.us](mailto:lbacke@co.cochise.az.us)

County of Cochise  
1415 Melody Lane, Bldg G  
Bisbee, Arizona 85603

Fax (520) 432-8398

June 29, 2004

To the Board of Supervisors and the Citizens of Cochise County:

State law requires that counties prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by the Arizona State Auditor General's Office or by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the annual financial report of Cochise County for the fiscal year ended June 30, 2003.

This report consists of management's representations concerning the finances of Cochise County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Christensen, Gale, McLaren, LLP, a firm of licensed certified accountants, has audited the County's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Cochise County financial statements for the fiscal year ended June 30, 2003 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "single audit" designed to meet the special needs of federal grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal

controls and legal requirements involving the administration of federal awards.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD & A). This letter of transmittal is designed to complement the MD & A and should be read in conjunction with it. The County's MD & A can be found immediately following the report of the independent auditors.

### **Profile of Cochise County**

Cochise County was formed in 1881 and is located in the southeast corner of the State of Arizona. The County is bordered on the north by Graham and Greenlee Counties, on the east by the State of New Mexico, on the south by the Republic of Mexico, and on the west by Santa Cruz and Pima Counties. The County encompasses approximately 6,256 square miles and the 2000 census showed a population of 117,755.

Located within the County are the incorporated cities of Sierra Vista, Douglas, Bisbee, Benson, Tombstone and Willcox and the Town of Huachuca City.

The County is governed by a three-member Board of Supervisors, each of whom is elected for a four-year term to represent one of the designated districts in the County. The Board of Supervisors is responsible for establishing the policies of the various County departments and approving the annual budgets of these departments. The Board appoints a County Administrator who is responsible for the general administration and overall operation of the departments of the County.

The County provides a full range of services including law enforcement, health, courts, the construction and maintenance of highways and streets and cultural activities through the County Library District. The Board acts as the board of directors for several special districts with the County such as light districts, the Flood Control District and the Library District.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

**Local Economy:** Cochise County has experienced steady population growth averaging slightly over 2% per year for the past ten years (1990 to 2000) with the majority of the growth in the Sierra Vista area.

The economy of the County is based on farming, ranching, tourism and government operations. Cochise County is the second largest employer in the County; second only to the U. S. Army's Ft. Huachuca. The County unemployment rate as of June 30, 2002 was 5.7% compared to the statewide rate of 6.2%

Agriculture is one of the major contributors to the County's economy. The excellent year-round climate and fertile basins of the County account for the production of alfalfa, cotton, grains and vegetables.

Tourism is also a significant contributor to the County's economy. Located within the County is the City of Tombstone which is famous for the Gunfight at the OK Corral, its old Cochise County courthouse, now a state historical museum, and the Amerind Foundation Museum, a renowned museum of Indian culture and artifacts. The National Forest Service operates campgrounds and picnic areas in the Huachuca, Chiricahua and Dragoon Mountains. Two bird sanctuaries including the Ramsey Canyon Preserve featuring more than 200 species of hummingbirds and the San Pedro Riparian National Conservation Area are open to the public. The Coronado National Monument commemorates the first European expedition into the American Southwest.

Government activities account for approximately 34% of the County's non-agricultural employment structure. Fort Huachuca is the largest employer in the County with approximately 13,000 military and civilian employees. The Fort was established in 1877 as a cavalry post to protect settlers and travel routes. The Fort has been designated a "permanent" military installation by the Department of Defense; however, operations are subject to review by the Defense Base Closure and Realignment Commission.

**Long-term financial planning:** For the past ten or more years, the Board of Supervisors has adopted a generally conservative approach to budgeting and financial management. The County has no general obligation bonds outstanding. During the fiscal year, the County did issue \$9,500,000 in Certificates of Participation (COP's) in order to finance new facilities in the Benson and Bisbee areas. Facilities, capital projects, and the debt service for the COP's are financed primarily by an excise tax of ½ cent.

**Cash Management:** Cash temporarily idle during the year was invested in the Arizona State Treasurer's Local Government Investment Pool and money-market accounts collateralized by U.S. Government securities.

**Risk Management:** The County participates in an intergovernmental agreement with other Arizona counties to form a risk retention pool, the Arizona Counties Insurance Pool (ACIP), which covers property, liability, automobiles, and errors and omissions. Additional information on the County's risk management activity and insurance claims can be found in Note 8 and 9 of the notes to the financial statements.

### **Acknowledgements**

This annual financial report is always a team project for the Finance Department. The many hours of work by the staff on this task is greatly appreciated. In addition, the support and technical advice provided by the auditors from Christensen, Gale & McLaren, LLP are gratefully acknowledged. I would also like to thank the members of the Board of Supervisors and the County Administrator for their interest and support in planning and conducting the financial affairs of the County in a responsible and progressive manner.

Sincerely,

Lois Backe  
Chief Financial Officer

## **FINANCIAL SECTION**

## Independent Auditors' Report

The Auditor General of the State of Arizona

The Board of Supervisors of  
Cochise County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County, Arizona, as of and for the year ended June 30, 2003, as listed in the table of contents, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Cochise Health Systems, which represent 35 percent and 90 percent, respectively, of the assets and revenues of the business-type activities. We also did not audit the financial statements of Cochise County Workforce Development, Inc., which represent 83 percent and 45 percent, respectively, of the assets and revenues of the component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Cochise Health Systems and Cochise County Workforce Development, Inc., is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

Cochise County, Arizona  
April 30, 2004

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of Cochise County, Arizona, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2003, to implement a new financial reporting model.

The Management's Discussion and Analysis on pages 9 through 18, the Budgetary Comparison Schedules on pages 58 through 60, and the Schedule of Agent Retirement Plans' Funding Progress on page 61, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information included in the introductory section listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2004, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

CHRISTENSEN, GALE & MCLAREN, LLP

April 30, 2004

## **MANAGEMENT'S DISCUSSIONS AND ANALYSIS**

## **Cochise County, Arizona Management's Discussion and Analysis**

As management of Cochise County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cochise County for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2 - 4.

- The assets of Cochise County exceed its liabilities at the close of the fiscal year by \$66,110,052 (net assets). Of this amount \$26,102,118 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the close of the fiscal year, Cochise County's governmental activities reported a combined net assets of \$54,587,543, an increase of \$1,587,691 over the prior year restated net assets.
- At the end of the fiscal year, unreserved fund balance in the general fund was \$10,536,189 or 26.8% of total general fund expenditures for the year.
- Cochise County's total debt (certificates of participation and capital leases) increased by a net \$7,967,240 during the current fiscal year. The increase is attributable to the issue of the Series 2002 Certificates of Participation (\$9,500,000) offset by the defeasance of the remaining balance of the Series 1996 COP's (\$1,720,000) and the normal debt service on the capital leases.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Cochise County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Required Supplementary Information is included in addition to the basic financial statements.

**Government-wide financial statements** are designed to provide readers with a broad overview of Cochise County's finances in a manner similar to a private sector business.

The *Statement of Net Assets* presents information on all of Cochise County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows (full accrual accounting). Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

## **Cochise County, Arizona Management's Discussion and Analysis (continued)**

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, and education. The business-type activities include Cochise Health Systems (long-term care), the Cochise County Solid Waste System, and the Bisbee-Douglas International Airport.

The government-wide statements not only include Cochise County itself (the primary government) but also the legally separate Flood Control District, Library District and various other Special Assessment Districts. These districts function for all practical purposes as departments of the County, and therefore have been included as an integral part of the County.

The government-wide financial statements can be found on pages 20 – 21 of this report.

**Fund Financial Statements** are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds.*

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund statements focus on near term inflows and outflows of spendable resources as well as the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financial position.

Because the focus of governmental funds statements is narrower than the government-wide statements, it is useful to compare the information presented for governmental funds with similar information for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances include a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains approximately 187 individual governmental funds. Information is presented separately in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund and those funds designated as major funds including the Highway and Streets Fund and the Capital Projects Fund. Data for the other governmental funds are combined into a single, aggregated presentation.

The Highway and Streets Fund provides for the construction and maintenance of the County's surface transportation system in a reasonably safe and cost-effective manner. The primary source of revenue for the fund comes from the Arizona highway user revenue fund (HURF).

## **Cochise County, Arizona Management's Discussion and Analysis (continued)**

The County's Capital Projects Fund provides resources for the acquisition or construction of major facilities and automation and communications projects. The major source of revenue for the fund is the County's local excise tax.

The governmental fund financial statements can be found on pages 22 - 24 of this report.

**Proprietary funds** include two types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Cochise Health Systems (long-term care), the Cochise County Solid Waste System, and the Bisbee-Douglas International Airport. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for fleet operations, the computer replacement program, and the County's participation in the Cochise Combined Trust for providing health insurance and other benefits to County employees. Because these services predominately benefit governmental rather than business-type activities, the net result of the operations has been included within the governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Cochise Health Systems and the Solid Waste System are considered to be major funds and are therefore reported separately. The internal service funds are presented in the proprietary fund financial statements.

The proprietary funds financial statements can be found on pages 25 – 28 of this report.

**Fiduciary funds** are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 29 – 30 of this report.

**Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the basic financial statements can be found on pages 33 – 56 of this report.

**Required Supplementary Information** presents schedules of revenues and expenditures, budget and actual, for the General and major Special Revenue Funds. This section also includes certain information concerning the County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 58 - 61 of this report.

**Cochise County, Arizona**  
**Management's Discussion and Analysis (continued)**

**Government-wide Financial Analysis**

As this is the first year of presentation under GASB-34, a detailed comparative analysis with the prior year is not presented. Beginning next year, the County will present a comparative analysis between fiscal years for the government-wide financial statements. There is however, one material change that should be highlighted.

The \$11,479,738 increase in total assets in the Capital Projects fund resulted from the accumulation of resources including the issue of \$9,500,000 in Certificates of Participation to be used for a major building project for facilities in Benson and Bisbee. As of June 30, 2003, construction has begun but the majority of the construction activity will be during Fiscal Year 2003-2004.

**Statement of Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Cochise County's assets exceeded liabilities by \$66,110,052.

**Summary Statement of Net Assets**  
**Fiscal Year Ending June 30, 2003**

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 40,366,251	\$ 9,051,182	\$ 49,417,433
Capital assets	<u>30,703,084</u>	<u>7,576,589</u>	<u>38,279,673</u>
Total assets	<u>71,069,335</u>	<u>16,627,771</u>	<u>87,697,106</u>
Other liabilities	4,081,543	2,974,367	7,055,910
Long-term liabilities outstanding	<u>12,400,249</u>	<u>2,130,895</u>	<u>14,531,144</u>
Total liabilities	<u>16,481,792</u>	<u>5,105,262</u>	<u>21,587,054</u>
Net assets:			
Invested in capital assets (net of related debt)	29,307,757	7,576,589	36,884,346
Restricted		3,123,588	3,123,588
Unrestricted	<u>25,279,786</u>	<u>822,332</u>	<u>26,102,118</u>
Total net assets	<u>\$ 54,587,543</u>	<u>\$ 11,522,509</u>	<u>\$ 66,110,052</u>

A large portion of Cochise County's net assets (55.8%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). These amounts are presented after deduction accumulated depreciation and any related outstanding debt used to acquire those assets. The County uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be

**Cochise County, Arizona**  
**Management's Discussion and Analysis (continued)**

provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental activities and business-type activities.

The County's net assets increased by \$1,940,506 during the fiscal year. By far the majority of this increase - 99.8% - is attributable to the increase in the County's investment in capital assets. The remainder of the growth reflects the net results of increases in taxes and other revenues and controls on expenditures. The increase in construction in progress on the Benson and Melody Lane buildings accounted for 82.7% of the increase in capital assets.

**Statement of Activities.** The following table summarizes the results of operations and accounts for the change in net assets for governmental and business-type activities:

**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2003**

	Governmental Activities	Business-type Activities	Total
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 6,493,388	\$ 29,489,952	\$ 35,983,340
Operating grants and contributions	30,767,041		30,767,041
General revenues:			-
Property taxes	18,975,219		18,975,219
Sales tax	5,506,731	197,925	5,704,656
Vehicle license tax	2,787,489		2,787,489
Other	(179,055)	(105,030)	(284,085)
<b>Total revenues</b>	<b>64,350,813</b>	<b>29,582,847</b>	<b>93,933,660</b>
<b>Expenses</b>			
General government	27,254,389		27,254,389
Public safety	12,905,355		12,905,355
Highways and streets	9,529,119		9,529,119
Sanitation	731,885		731,885
Health and welfare	11,446,050		11,446,050
Culture and recreation	802,908		802,908
Education	493,416		493,416
Long term care		25,800,125	25,800,125
Airport operation		256,214	256,214
Solid waste system		2,773,693	2,773,693
<b>Total expenses</b>	<b>63,163,122</b>	<b>28,830,032</b>	<b>91,993,154</b>
Increase in net assets before transfers	1,187,691	752,815	1,940,506
Transfers	400,000	(400,000)	-

**Cochise County, Arizona  
Management's Discussion and Analysis (continued)**

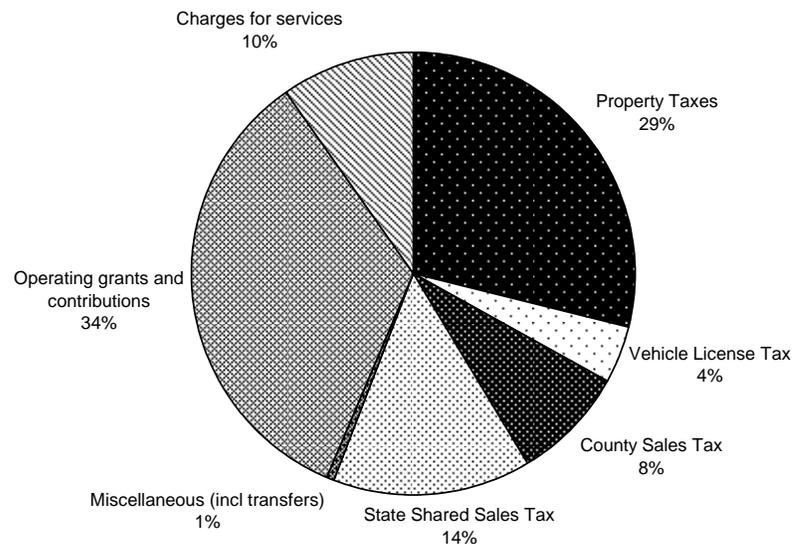
<b>Increase in net assets</b>	<u>1,587,691</u>	<u>352,815</u>	<u>1,940,506</u>
Net assets, 7/01/02, as restated	<u>52,999,852</u>	<u>11,169,694</u>	<u>64,169,546</u>
Net assets, 6/30/03	<u>\$ 54,587,543</u>	<u>\$ 11,522,509</u>	<u>\$ 66,110,052</u>

**Governmental activities:** Key elements of the increase in net assets of \$1,587,691 are as follows:

**Major Revenues:**

- **Property taxes:** The net assessed value of all taxable property in the County increased by \$33,606,000 or 6.7% over the previous year. With no change in the property tax rate from FY 2002, property tax revenues increased by \$1,270,272 or 7.2%.
- **State shared revenues - vehicle license tax and sales tax:** These state shared revenue increased by 5.62% and 4.78% respectively from the previous year. Both revenue sources increased more than expected. The increases are indicative of the overall economic improvement in the state as well as moderate growth and stability within the County.
- **County sales taxes:** The County excise tax (.5%) increased by \$326,134 or 6.06% compared to a budgeted increase of \$124,000. This favorable variance is indicative of the growth and stability within the County.

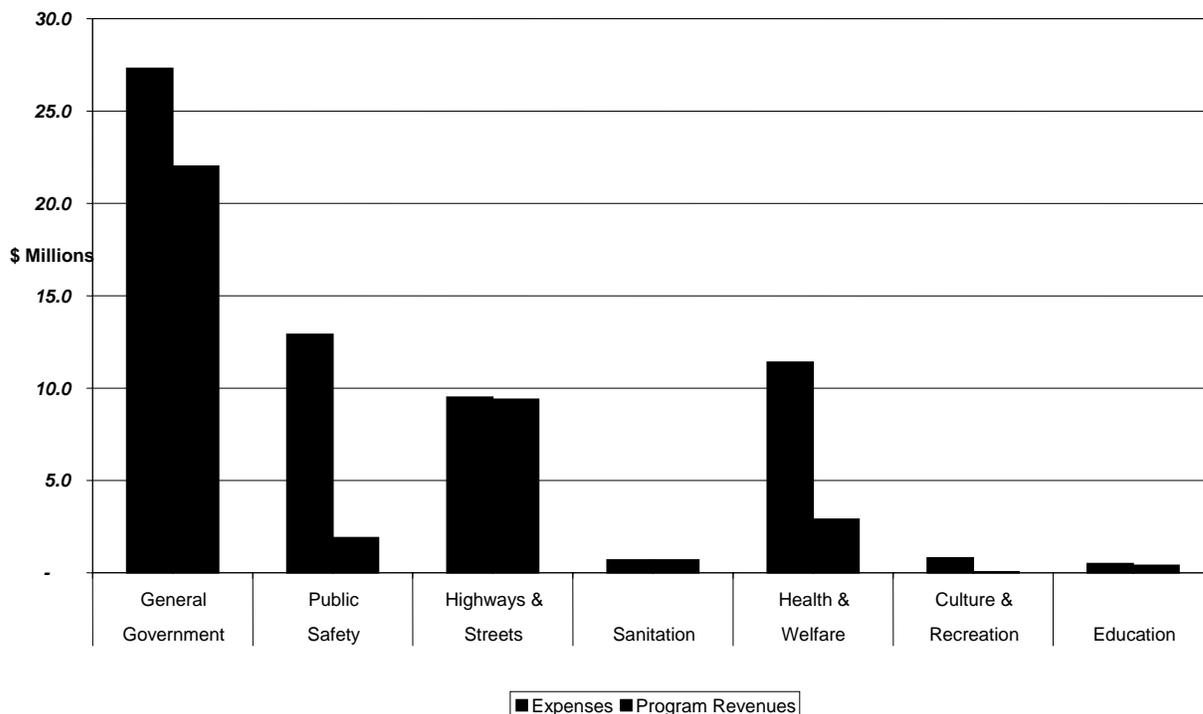
**Revenues by Source - Governmental Activities  
Fiscal Year Ending June 30, 2003**



**Cochise County, Arizona  
Management's Discussion and Analysis (continued)**

**Expenses:** Overall expenditures in the governmental activities increased by \$1,923,800 or 3.02%. The increase in expenses is consistent with the County's conservative budgeting philosophy, overall inflation, and modest salary increases for County employees.

**Expenses vs. Revenues by Function - Governmental Funds  
Fiscal Year Ending June 30, 2003**



**Business-type activities.**

The County's business type activities include the Bisbee-Douglas International Airport, Cochise Health Systems, and the Solid Waste Management System.

The Bisbee Douglas International Airport provides general aviation services to the public. Services include fuel and oil sales as well as the rental of hangar and tie-down space. Water for the Arizona Department of Corrections facilities in Douglas, Arizona is also provided from the airport.

Cochise Health Systems (CHS) is a Medicaid long-term care HMO under contract with the Arizona Health Care Cost Containment System (AHCCCS). CHS provides case management as well as a full range of acute and long term medical services for elderly and disabled members located in Cochise, Graham and Greenlee Counties. The Arizona Long Term Care System (ALTCS), a state agency, determines eligibility for members assigned to CHS.

The Solid Waste Management System provides high-quality, cost effective and environmentally safe solid waste management services in conformance with the terms of intergovernmental agreements between the County and participating cities. The services include the operation of a regional solid waste landfill, rural and urban transfer stations, and the hauling of solid waste between the transfer stations and the landfill.

**Cochise County, Arizona**  
**Management's Discussion and Analysis (continued)**

Detailed financial information for the business-type activities is included in the Statement of Net Assets for Proprietary Funds on page 25, the Statement of Revenue, Expenses and Changes in Net Assets for Proprietary Funds on page 26, and in the Statement of Cash Flows in the Proprietary Funds on pages 27-28.

Net assets for business-type activities increased by \$352,815. The majority of the increase was due to program growth in Cochise Health Systems.

**Financial Analysis of the County's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The governmental activities are accounted for in the general, special revenue, and capital projects funds. Included in these funds are the special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the primary operating fund of the County. At June 30, 2003, the total fund balance was \$10,536,189. None of the General Fund fund balance is restricted for any purpose. As a measure of the General Fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. As of June 30, 2003, the fund balance represents 26.8% of total General Fund expenditures.

The fund balance of the General Fund increased by \$254,624 during the fiscal year. Three key factors account for the increase: an increase in property taxes, an increase in state shared revenues (sales taxes and vehicle license taxes) and modest increases in expenditures.

Proprietary funds. The County's proprietary fund statements provide the same type information found in the government-wide financial, but in more detail.

**Capital Asset and Debt Administration**

**Capital Assets**

The County's investment in capital assets for governmental and business-type activities as of June 30, 2003 amounts to \$38,279,673 (net of accumulation depreciation). In accordance with GASB Statement No. 34, the County will retroactively value all infrastructure assets back to fiscal year 1981 by June 30, 2007. Major capital asset events during the current fiscal year included the following:

- Construction in progress increased by \$1,376,670 for the Benson and Melody Lane buildings and by \$132,988 for the Western Regional Landfill

**Cochise County, Arizona**  
**Management's Discussion and Analysis (continued)**

- Equipment investment for Solid Waste Capital Projects Fund totaled \$822,826
- Equipment modernization in the Highway and Streets Fund totaled \$1,419,857
- Programmed vehicle replacement of \$618,446 in the Fleet Management Fund (an Internal Service Fund)

Additional information on the County's capital assets can be found in Note 7 on pages 43 - 44 of this report.

**Long-term Debt**

At June 30, 2003, the County had total long-term debt outstanding of \$9,718,068 (excluding the compensated balances and landfill closure and post closure care costs liabilities) as compared to \$1,750,828 in the prior year. This amount was comprised of \$9,694,597 of Certificates of Participation issued in 2002 (including unamortized premium of \$194,597) and \$23,471 in capital leases. The change in the total outstanding debt includes the normal annual debt service and the defeasance of the remaining balance of \$1,720,000 from the Series 1996 Certificates of Participation.

The Series 2002 Certificates of Participation were issued to acquire land and construct a new County Service Center in Benson and to construct new facilities in order to consolidate County administrative functions in Bisbee.

Cochise County has no general obligation or revenue bonds outstanding.

**Budgetary Comparison – General Fund:** The favorable variances in most revenues and expenses resulted from conservative budgeting and moderate growth and stability within the County. Overall, the general fund budgetary fund balance increased by slightly less than \$1 million.

The growth in intergovernmental revenues resulted from an additional PLT (Payment in Lieu of Taxes) payment from the federal government recorded in FY 2002-2003 due to a change in their payment schedule. Better than expected growth in state shared sales taxes and vehicle license taxes also contributed to the favorable performance.

The variance in charges for services is reflective of ongoing efforts to establish fair and reasonable fees for services provided and to collect the fees, especially in the court system.

One notable unfavorable variance – investment income – resulted from the write-off of an investment loss incurred in the State Treasurer's Local Government Investment Pool.

There are no material variances in expenses except for the general government function. The favorable variance of \$7,752,095 resulted primarily from unspent contingency funds.

**Cochise County, Arizona  
Management's Discussion and Analysis (continued)**

**Economic Factors**

Key economic factors affecting the County are:

- The County's unemployment rate as of June 30, 2003 is 5.7% compared to 6.2% statewide and 6.4% nationwide. Although the rate has increased slightly from approximately 5.3% in the prior year, it has been consistently below the overall state rate. Within the County, the rate varies widely between the incorporated areas, ranging from a low of 3.5% in Willcox to a high of 11.6% in Douglas.
- For the fiscal year ended June 30, 2003, the County remained the second largest employer in the County. Ft. Huachuca is the County's largest employer with 11,097 employees compared to 1,046 for the County.
- The County's primary tax rate has either remained the same or decreased each year for the past twelve years.
- The County's expense for employee health insurance increased by \$467,000 or 15.87% over the prior fiscal year.

**Request for Information**

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cochise County Finance Department, 1415 Melody Lane, Building G, Bisbee, AZ 85603.

## **BASIC FINANCIAL STATEMENTS**

Cochise County, Arizona  
Statement of Net Assets  
June 30, 2003

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
<b>ASSETS</b>				
Cash in bank and on hand	\$ 274,832	\$ 1,100	\$ 275,932	\$ 148,289
Cash and investments held by County Treasurer	23,640,335	4,668,851	28,309,186	
Cash and investments held by trustees	9,553,983	-	9,553,983	
Investments		3,335,035	3,335,035	
Receivables (net of allowances for uncollectibles)				
Property taxes	784,828	-	784,828	
Accounts	765,349	617,401	1,382,750	3,570
Accrued interest	29,342	11,579	40,921	-
Internal balances	(52,227)	52,227	-	-
Due from other governments	5,185,246	364,989	5,550,235	453,321
Prepaid items	184,563	-	184,563	2,002
Capital assets:				
Land	1,799,760	1,591,500	3,391,260	-
Buildings	21,850,111	4,520,844	26,370,955	-
Improvements other than buildings	1,272,709	515,456	1,788,165	67,330
Machinery and equipment	20,073,437	2,840,909	22,914,346	223,202
Accumulated depreciation	(15,680,903)	(2,025,118)	(17,706,021)	(177,402)
Construction in progress	1,387,970	132,998	1,520,968	-
Total capital assets, net of depreciation	<u>30,703,084</u>	<u>7,576,589</u>	<u>38,279,673</u>	<u>113,130</u>
Total assets	<u>71,069,335</u>	<u>16,627,771</u>	<u>87,697,106</u>	<u>720,312</u>
<b>LIABILITIES</b>				
Accounts payable	2,435,983	2,902,235	5,338,218	60,383
Accrued payroll and employee benefits	923,576	71,882	995,458	266,646
Deferred revenues	-	250	250	160,391
Due to other governments	390,678	-	390,678	-
Deposits held for others	331,306	-	331,306	-
Noncurrent liabilities:				
Due within one year	969,029	92,606	1,061,635	-
Due in more than one year	11,431,220	2,038,289	13,469,509	15,245
Total non-current liabilities	<u>12,400,249</u>	<u>2,130,895</u>	<u>14,531,144</u>	<u>15,245</u>
Total liabilities	<u>16,481,792</u>	<u>5,105,262</u>	<u>21,587,054</u>	<u>502,665</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	29,307,757	7,576,589	36,884,346	113,130
Restricted for long-term care services	-	3,123,588	3,123,588	-
Restricted for grants	-	-	-	104,517
Unrestricted	25,279,786	822,332	26,102,118	-
Total net assets	<u>\$ 54,587,543</u>	<u>\$ 11,522,509</u>	<u>\$ 66,110,052</u>	<u>\$ 217,647</u>

Cochise County, Arizona  
Statement of Activities  
Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government:							
Governmental activities:							
General government	\$ 27,254,389	\$ 4,606,379	\$ 17,413,261	\$ (5,234,749)		\$ (5,234,749)	
Public safety	12,905,355	532,632	1,318,806	(11,053,917)		(11,053,917)	
Highway and streets	9,529,119	389,684	9,032,527	(106,908)		(106,908)	
Sanitation	731,885	499,062	188,526	(44,297)		(44,297)	
Health and welfare	11,446,050	463,861	2,392,643	(8,589,546)		(8,589,546)	
Culture and recreation	802,908	-	50,189	(752,719)		(752,719)	
Education	493,416	1,770	371,089	(120,557)		(120,557)	
Total governmental activities	<u>63,163,122</u>	<u>6,493,388</u>	<u>30,767,041</u>	<u>(25,902,693)</u>		<u>(25,902,693)</u>	
Business-type activities:							
Bisbee-Douglas International Airport	226,660	160,663			(65,997)	(65,997)	
Cochise Health Systems	25,800,125	26,711,886			911,761	911,761	
Solid Waste	2,773,693	2,617,403			(156,290)	(156,290)	
Other	29,554	-			(29,554)	(29,554)	
Total business-type activities	<u>28,830,032</u>	<u>29,489,952</u>	<u>-</u>	<u>-</u>	<u>659,920</u>	<u>659,920</u>	
Total primary government	<u>91,993,154</u>	<u>35,983,340</u>	<u>30,767,041</u>	<u>(25,902,693)</u>	<u>659,920</u>	<u>(25,242,773)</u>	
Component units:							
Housing Authority of Cochise County	1,626,842	-	1,633,174				6,332
Cochise County Workforce Development, Inc.	1,357,829	-	1,348,203				(9,626)
Total component units	<u>2,984,671</u>	<u>-</u>	<u>2,981,377</u>				<u>(3,294)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes				18,975,219	-	18,975,219	
Share of state sales tax				5,506,731	197,925	5,704,656	
Vehicle license tax				2,787,489	-	2,787,489	
Investment income				(168,079)	(110,511)	(278,590)	1,398
Gain (loss) on disposal of capital assets				-	11,487	11,487	(4,022)
Miscellaneous				(10,976)	(6,006)	(16,982)	4,378
Transfers				400,000	(400,000)	-	-
Total general revenues and transfers				<u>27,490,384</u>	<u>(307,105)</u>	<u>27,183,279</u>	<u>1,754</u>
Change in net assets				1,587,691	352,815	1,940,506	(1,540)
Net assets, July 1, 2002, as restated				<u>52,999,852</u>	<u>11,169,694</u>	<u>64,169,546</u>	<u>219,187</u>
Net assets, June 30, 2003				<u>\$ 54,587,543</u>	<u>\$ 11,522,509</u>	<u>\$ 66,110,052</u>	<u>\$ 217,647</u>

Cochise County, Arizona  
Balance Sheet  
Governmental Funds  
Year Ended June 30, 2003

	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash in bank and on hand	\$ 203,712	\$ -	\$ -	\$ 70,920	\$ 274,632
Cash and investments held by County Treasurer	9,296,237	3,900,542	2,090,734	8,015,554	23,303,067
Cash and investments held by trustees	-	9,553,983	-	-	9,553,983
Receivables (net of allowances for uncollectibles)					
Property taxes	666,750	-	-	118,078	784,828
Accounts	594,663	-	1,358	125,749	721,770
Accrued interest	11,535	4,841	2,595	9,951	28,922
Due from other funds	439,338	-	110,377	521,250	1,070,965
Due from other governments	1,767,082	517,352	824,619	2,071,759	5,180,812
Prepaid items	184,563	-	-	-	184,563
Total assets	<u>\$ 13,163,880</u>	<u>\$ 13,976,718</u>	<u>\$ 3,029,683</u>	<u>\$ 10,933,261</u>	<u>\$ 41,103,542</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<u>Liabilities:</u>					
Accounts payable	849,884	623,590	504,833	361,347	2,339,654
Accrued payroll and employee benefits	640,019	-	106,094	319,238	1,065,351
Deferred revenues	509,821	-	-	88,992	598,813
Due to other funds	300,230	53,667	239,818	834,851	1,428,566
Due to other governments	-	-	-	390,678	390,678
Deposits held for others	327,737	-	-	3,569	331,306
Certificates of participation payable	-	<u>785,000</u>	-	-	<u>785,000</u>
Total liabilities	<u>2,627,691</u>	<u>1,462,257</u>	<u>850,745</u>	<u>1,998,675</u>	<u>6,939,368</u>
Fund balances:					
Reserved for:					
Capital projects	-	9,553,983	-	-	9,553,983
Unreserved, reported in:					
General fund	10,536,189				10,536,189
Special revenue funds			2,178,938	8,934,586	11,113,524
Capital projects funds	-	<u>2,960,478</u>	-	-	<u>2,960,478</u>
Total fund balances	<u>10,536,189</u>	<u>12,514,461</u>	<u>2,178,938</u>	<u>8,934,586</u>	<u>34,164,174</u>
Total liabilities and fund balances	<u>\$ 13,163,880</u>	<u>\$ 13,976,718</u>	<u>\$ 3,029,683</u>	<u>\$ 10,933,261</u>	<u>\$ 41,103,542</u>
Fund Balances-total governmental funds					\$ 34,164,174
Amounts reported for governmental activities in the Statement of Net Assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.					27,766,344
Balance of receivables at year-end that are not available to pay for current period expenditures and, therefore, are deferred in the funds					598,813
Internal service funds are used by management to charge the costs of automotive maintenance and operation, insurance, telecommunications, and information technology services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.					3,515,298
Long-term liabilities and compensated balances are not due and payable shortly after June 30, 2003, therefore, are not reported in the funds.					
Certificates of participation payable (includes unamortized premium of \$194,597)					(8,909,597)
Capital leases payable					(23,471)
Compensated absences payable					<u>(2,524,018)</u>
Net assets of governmental activities					<u>\$ 54,587,543</u>

Cochise County, Arizona  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2003

	General Fund	Capital Projects Fund	Highway and Streets Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 23,111,424	\$ 1,727,938	\$ -	\$ 2,522,082	\$ 27,361,444
Licenses and permits	52,708	-	-	-	52,708
Intergovernmental	12,836,728	-	8,784,727	9,145,586	30,767,041
Charges for services	2,189,951	-	389,684	1,332,439	3,912,074
Fines and forfeits	2,128,177	-	-	400,429	2,528,606
Investment income	(116,682)	68,429	(31,754)	(88,072)	(168,079)
Miscellaneous	209,250	(6,780)	17,182	(158,190)	61,462
Total revenues	<u>40,411,556</u>	<u>1,789,587</u>	<u>9,159,839</u>	<u>13,154,274</u>	<u>64,515,256</u>
<b>EXPENDITURES</b>					
Current:					
General government	18,209,633	578,284	-	5,674,915	24,462,832
Public safety	10,821,908	-	-	2,584,302	13,406,210
Highways and streets	-	-	10,284,705	20,800	10,305,505
Sanitation	473,134	-	-	272,994	746,128
Health and welfare	8,991,189	-	-	2,462,230	11,453,419
Culture and recreation	-	-	-	809,803	809,803
Education	294,033	-	-	202,015	496,048
Debt service:					
Principal retirement	-	2,445,491	-	-	2,445,491
Interest and fiscal charges	-	(52,453)	-	-	(52,453)
Capital outlay	479,681	1,515,449	-	80,161	2,075,291
Total expenditures	<u>39,269,578</u>	<u>4,486,771</u>	<u>10,284,705</u>	<u>12,107,220</u>	<u>66,148,274</u>
Excess (deficiency) of revenues over expenditures	<u>1,141,978</u>	<u>(2,697,184)</u>	<u>(1,124,866)</u>	<u>1,047,054</u>	<u>(1,633,018)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	1,289,220	-	209,255	1,498,475
Transfers out	(887,354)	-	(60,711)	-	(948,065)
Reversion to grantors	-	-	-	(16,376)	(16,376)
Issuance of certificates of participation	-	9,500,000	-	-	9,500,000
Total other financing sources (uses)	<u>(887,354)</u>	<u>10,789,220</u>	<u>(60,711)</u>	<u>192,879</u>	<u>10,034,034</u>
Net changes in fund balances	254,624	8,092,036	(1,185,577)	1,239,933	8,401,016
Fund balances, July 1, 2002	<u>10,281,565</u>	<u>4,422,425</u>	<u>3,364,515</u>	<u>7,694,653</u>	<u>25,763,158</u>
Fund balances, June 30, 2003	<u>\$ 10,536,189</u>	<u>\$ 12,514,461</u>	<u>\$ 2,178,938</u>	<u>\$ 8,934,586</u>	<u>\$ 34,164,174</u>

Cochise County, Arizona  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 Governmental Funds  
 Year Ended June 30, 2003

Net change in fund balance - total governmental funds	\$	8,401,016
<p>Amounts reported for governmental activities in the Statement          of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However,          in the Statement of Activities the cost of those assets is allocated over          their estimated useful lives and reported as depreciation expense.          This is the amount by which capital outlays exceeded depreciation          in the current period.</p>		
Capital expenditures		1,533,803
Depreciation		(1,403,722)
Adjustment for the net value of assets acquired in prior years.		460,947
Deferred tax revenues are recognized in the governmental funds only when available, but are recognized in the Statement of Activities when earned.		(92,005)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, but no effect on net assets.		(9,500,000)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but no effect on net assets.		2,445,491
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		(200,354)
Internal service funds are used by management to charge the costs of automotive maintenance and operation, insurance, telecommunications, and information technology services provided to County departments or to other governments on a cost-reimbursement basis. The net revenue of internal service funds is reported with governmental activities.		<u>(57,485)</u>
Change in net assets of governmental activities	\$	<u>1,587,691</u>

Cochise County, Arizona  
Statement of Net Assets  
Proprietary Funds  
June 30, 2003

	Business-Type Activities Enterprise Funds			Governmental Activities	
	Cochise Health Systems Fund	Solid Waste Operations Funds	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>					
Current assets:					
Cash in bank and on hand	\$ -	\$ 1,100	\$ -	\$ 1,100	\$ 200
Cash and investments held by County Treasurer	3,496,641	1,123,671	48,539	4,668,851	337,268
Investments	1,944,866	1,390,169	-	3,335,035	-
Receivables (net of allowances for uncollectibles)					
Accounts	531,020	82,335	4,046	617,401	43,579
Accrued interest	5,841	1,933	3,805	11,579	420
Due from other funds	1,971	911,224	243	913,438	317,768
Due from other governments	11,550	322,580	30,859	364,989	4,434
Total current assets	<u>5,991,889</u>	<u>3,833,012</u>	<u>87,492</u>	<u>9,912,393</u>	<u>703,669</u>
Noncurrent capital assets:					
Land	-	1,591,500	-	1,591,500	-
Buildings	-	2,733,926	1,786,918	4,520,844	160,160
Improvements other than buildings	-	445,839	69,617	515,456	-
Machinery and equipment	177,188	2,613,721	50,000	2,840,909	6,106,675
Accumulated depreciation	(98,874)	(1,624,076)	(302,168)	(2,025,118)	(3,330,095)
Construction in progress	-	132,998	-	132,998	-
Total noncurrent assets	<u>78,314</u>	<u>5,893,908</u>	<u>1,604,367</u>	<u>7,576,589</u>	<u>2,936,740</u>
Total assets	<u>6,070,203</u>	<u>9,726,920</u>	<u>1,691,859</u>	<u>17,488,982</u>	<u>3,640,409</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable & other current liabilities	2,753,059	145,272	3,904	2,902,235	96,329
Accrued payroll and employee benefits	102,576	57,267	4,645	164,488	16,388
Deferred revenues	-	-	250	250	-
Due to other funds	12,666	847,621	924	861,211	12,394
Total current liabilities	<u>2,868,301</u>	<u>1,050,160</u>	<u>9,723</u>	<u>3,928,184</u>	<u>125,111</u>
Noncurrent liabilities:					
Liabilities for closure and postclosure care costs	-	2,038,289	-	2,038,289	-
Total noncurrent liabilities	<u>-</u>	<u>2,038,289</u>	<u>-</u>	<u>2,038,289</u>	<u>-</u>
Total liabilities	<u>2,868,301</u>	<u>3,088,449</u>	<u>9,723</u>	<u>5,966,473</u>	<u>125,111</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	78,314	5,893,908	1,604,367	7,576,589	2,936,740
Restricted for long-term care services	3,123,588			3,123,588	-
Unrestricted	-	744,563	77,769	822,332	578,558
Total net assets	<u>\$ 3,201,902</u>	<u>\$ 6,638,471</u>	<u>\$ 1,682,136</u>	<u>\$ 11,522,509</u>	<u>\$ 3,515,298</u>

Cochise County, Arizona  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
Year Ended June 30, 2003

	Business-Type Activities Enterprise Funds			Governmental Activities	
	Cochise Health Systems Fund	Solid Waste Operations Funds	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues:					
Charges for services	\$ 26,711,886	\$ 2,617,403	\$ 160,663	\$ 29,489,952	\$ 1,589,011
Health plan contributions	-	-	-	-	4,821,025
Total operating revenues	<u>26,711,886</u>	<u>2,617,403</u>	<u>160,663</u>	<u>29,489,952</u>	<u>6,410,036</u>
Operating expenses:					
Personal services	1,824,329	1,034,466	110,616	2,969,411	290,598
Supplies	20,346	337,949	48,393	406,688	717,967
Support and care	23,093,493	-	-	23,093,493	-
Contractual services	25,484	943,765	62,246	1,031,495	4,841,916
Landfill closure and postclosure care costs	-	180,461	-	180,461	-
Depreciation	12,274	225,243	54,495	292,012	543,511
Other	824,199	51,809	(19,536)	856,472	3,393
Total operating expenses	<u>25,800,125</u>	<u>2,773,693</u>	<u>256,214</u>	<u>28,830,032</u>	<u>6,397,385</u>
Operating income (loss)	<u>911,761</u>	<u>(156,290)</u>	<u>(95,551)</u>	<u>659,920</u>	<u>12,651</u>
Nonoperating revenues (expenses):					
Taxes	-	197,925	-	197,925	-
Investment income	(118,271)	(17,097)	24,857	(110,511)	19,073
Gains (loss) on sale of capital assets	-	12,044	(557)	11,487	-
Miscellaneous	-	928	(6,934)	(6,006)	61,200
Total nonoperating revenues (expenses)	<u>(118,271)</u>	<u>193,800</u>	<u>17,366</u>	<u>92,895</u>	<u>80,273</u>
Income before transfers	<u>793,490</u>	<u>37,510</u>	<u>(78,185)</u>	<u>752,815</u>	<u>92,924</u>
Transfers in	-	-	-	-	99,591
Transfers out	(400,000)	-	-	(400,000)	(250,000)
Increases (decreases) in net assets	393,490	37,510	(78,185)	352,815	(57,485)
Net assets, July 1, 2002, as restated	<u>2,808,412</u>	<u>6,600,961</u>	<u>1,760,321</u>	<u>11,169,694</u>	<u>3,572,783</u>
Net Assets, June 30, 2003	<u>\$ 3,201,902</u>	<u>\$ 6,638,471</u>	<u>\$ 1,682,136</u>	<u>\$ 11,522,509</u>	<u>\$ 3,515,298</u>

Cochise County, Arizona  
Statement of Cash Flows — Proprietary Funds  
Year Ended June 30, 2003

	Business-Type Activities			Governmental Activities	
	Enterprise Funds				
	Cochise Health Systems Fund	Solid Waste Operations Funds	Other Enterprise Funds		Total Enterprise Funds
Cash flows from operating activities:					
Receipts from customers	\$ 26,336,245	\$ 2,672,630	\$ 180,050	\$ 29,188,925	\$ 6,395,667
Other receipts	-		-	-	62,198
Payments to suppliers and providers of goods and services	(22,445,132)	(1,411,014)	(118,236)	(23,974,382)	(5,667,874)
Payments to employees	(1,812,842)	(1,026,212)	(109,510)	(2,948,564)	(289,791)
Other payments	(881,194)	-	(6,357)	(887,551)	(153,996)
Net cash provided by (used for) operating activities	<u>1,197,077</u>	<u>235,404</u>	<u>(54,053)</u>	<u>1,378,428</u>	<u>346,204</u>
Cash flows from noncapital financing activities:					
Cash transfers from other funds	-	198,850	-	198,850	99,591
Cash transfers to other funds	(400,000)	-	(26,467)	(426,467)	(250,000)
Net cash provided by (used for) noncapital financing activities	<u>(400,000)</u>	<u>198,850</u>	<u>(26,467)</u>	<u>(227,617)</u>	<u>(150,409)</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets	-	95,000		95,000	-
Purchases of capital assets	-	(822,826)	-	(822,826)	(544,287)
Payments made to contractors	-	(132,998)	-	(132,998)	-
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(860,824)</u>	<u>-</u>	<u>(860,824)</u>	<u>(544,287)</u>
Cash flows from investing activities:					
Investment income	(119,697)	(17,848)	34,428	(103,117)	20,178
Net cash provided by (used for) investing activities	<u>(119,697)</u>	<u>(17,848)</u>	<u>34,428</u>	<u>(103,117)</u>	<u>20,178</u>
Net increase (decrease) in cash and cash equivalents	<u>677,380</u>	<u>(444,418)</u>	<u>(46,092)</u>	<u>186,870</u>	<u>(328,314)</u>
Cash and cash equivalents, July 1, 2002, as previously reported	4,764,127	(963,911)	94,631	3,894,847	665,782
Investments	-	3,923,269	-	3,923,269	-
Cash and cash equivalents, July 1, 2002, as restated	<u>4,764,127</u>	<u>2,959,358</u>	<u>94,631</u>	<u>7,818,116</u>	<u>665,782</u>
Cash and cash equivalents, June 30, 2003	<u>5,441,507</u>	<u>2,514,940</u>	<u>48,539</u>	<u>8,004,986</u>	<u>337,468</u>

Cochise County, Arizona  
Statement of Cash Flows — Proprietary Funds  
Year Ended June 30, 2003  
(Continued)

	Business-Type Activities Enterprise Funds			Total	Governmental Activities
	Cochise Health Systems Fund	Solid Waste Operations Funds	Other Enterprise Funds	Enterprise Funds	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 911,761	\$ (156,290)	\$ (95,551)	\$ 659,920	\$ 12,651
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	12,274	225,243	54,495	292,012	543,511
Changes in assets and liabilities					
Increase in:					
Accounts receivable	(375,641)	-	-	(375,641)	(14,369)
Due from other funds	-	(622,669)	(85)	(622,754)	(147,177)
Due from other governments	(11,550)	(52,684)	(30,859)	(95,093)	(4,434)
Accounts payable	655,095	58,461	-	713,556	-
Accrued payroll and employee benefits	11,487	8,354	1,106	20,947	806
Due to other funds	-	539,300	(577)	538,723	1,008
Liabilities for closure and postclosure care costs	-	180,462	-	180,462	-
Decrease in:					
Accounts receivable	-	55,227	19,387	74,614	-
Due from other funds	7,546	-	-	7,546	-
Prepaid items	18,749	-	-	18,749	345,439
Accounts payable	-	-	(1,736)	(1,736)	(68,024)
Due to other funds	(32,644)	-	-	(32,644)	-
Claims and judgments payable	-	-	-	-	(323,207)
Deferred revenues	-	-	(233)	(233)	-
Net cash provided by (used for) operating activities	<u>\$ 1,197,077</u>	<u>\$ 235,404</u>	<u>\$ (54,053)</u>	<u>\$ 1,378,428</u>	<u>\$ 346,204</u>
Cash and cash equivalents, June 30, 2003, consist of:					
Cash in bank and on hand	\$ -	\$ 1,100	\$ -	\$ 1,100	\$ 200
Cash and investments held by County Treasurer	3,496,641	1,123,671	48,539	4,668,851	337,268
Investments	1,944,866	1,390,169	-	3,335,035	-
Totals	<u>\$ 5,441,507</u>	<u>\$ 2,514,940</u>	<u>\$ 48,539</u>	<u>\$ 8,004,986</u>	<u>\$ 337,468</u>
Noncash capital activities:					
Gain (loss) on sale of capital assets	<u>\$ -</u>	<u>\$ 12,044</u>	<u>\$ (557)</u>	<u>\$ 11,487</u>	<u>\$ -</u>

Cochise County, Arizona  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2003

	Investment Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 611,399	\$ 1,656,263
Investments	60,651,127	-
Interest and dividends receivable	78,108	68,260
Total assets	61,340,634	1,724,523
Liabilities		
Due to other governments	-	\$ 1,724,523
Net assets held in trust for investment trust participants	\$ 61,340,634	

Cochise County, Arizona  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2003

	Investment Trust Fund
Additions:	
Contributions from participants	\$ 162,075,631
Investment income	1,525,167
Total additions	163,600,798
Deductions:	
Distributions to participants	164,226,530
Total deductions	164,226,530
Change in net assets	(625,732)
Net assets held in trust:	
July 1, 2002	61,966,366
June 30, 2003	\$ 61,340,634

Cochise County, Arizona  
Combining Statement of Net Assets  
of Component Units  
June 30, 2003

	<u>Housing Authority of Cochise County</u>	<u>Cochise County Workforce Development, Inc.</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash in bank and on hand	\$ 96,823	\$ 51,466	\$ 148,289
Receivables (net of allowances for uncollectibles)			
Accounts	-	3,570	3,570
Due from other governments	19,573	433,748	453,321
Prepaid items	-	2,002	2,002
Capital assets:			
Improvements	-	67,330	67,330
Machinery and equipment	-	223,202	223,202
Accumulated depreciation	-	(177,402)	(177,402)
	<hr/>	<hr/>	<hr/>
Total assets	116,396	603,916	720,312
	<hr/>	<hr/>	<hr/>
<b><u>LIABILITIES</u></b>			
Accounts payable	35,159	25,224	60,383
Accrued payroll and employee benefits	-	266,646	266,646
Deferred revenues	-	160,391	160,391
Noncurrent liabilities:			
Compensated absences	-	15,245	15,245
	<hr/>	<hr/>	<hr/>
Total liabilities	35,159	467,506	502,665
	<hr/>	<hr/>	<hr/>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt		113,130	113,130
Restricted for grants	81,237	23,280	104,517
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 81,237	\$ 136,410	\$ 217,647
	<hr/>	<hr/>	<hr/>

Cochise County, Arizona  
Combining Statement of Activities  
of Component Units  
Year Ended June 30, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Housing Authority of Cochise County</u>	<u>Cochise County Workforce Development, Inc.</u>	<u>Total</u>
Business-type activities:						
Housing Authority of Cochise County	\$ 1,626,842	\$ -	\$ 1,633,174	\$ 6,332	\$ -	\$ 6,332
Cochise County Workforce Development, Inc.	<u>1,357,829</u>	<u>-</u>	<u>1,348,203</u>	<u>-</u>	<u>(9,626)</u>	<u>(9,626)</u>
Total component units	<u>2,984,671</u>	<u>-</u>	<u>2,981,377</u>	<u>6,332</u>	<u>(9,626)</u>	<u>(3,294)</u>
General revenues:						
Investment income				785	613	1,398
Miscellaneous				192	4,186	4,378
Loss on disposal of capital assets				<u>-</u>	<u>(4,022)</u>	<u>(4,022)</u>
Total general revenues				<u>977</u>	<u>777</u>	<u>1,754</u>
Change in net assets				7,309	(8,849)	(1,540)
Net assets, July 1, 2002, as restated				<u>73,928</u>	<u>145,259</u>	<u>219,187</u>
Net assets, June 30, 2003				<u>\$ 81,237</u>	<u>\$ 136,410</u>	<u>\$ 217,647</u>

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Cochise County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2003, the County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

**A. Reporting Entity**

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. The accompanying financial statements present the activities of the County (the primary government) and its component units.

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each discretely presented component unit discussed below has a June 30 year-end. The County has no blended component units. The following table describes the County's component units:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>Separate Financial Statements</u>
Housing Authority of Cochise County	Administers and coordinates Section 8 Rental Voucher Program. County board of supervisors appoints all members of the governing board and is able to impose its will upon the Housing Authority, but the Housing Authority does not provide services entirely to the County.	Discrete	Housing Authority of Cochise County Old Bisbee High School, First Floor, 100 Clawson Avenue P.O. Box 167 Bisbee, Arizona 85603
Cochise County Workforce Development, Inc.	Administers and coordinates Workforce Investment Act. County board of supervisors appoints all members of the governing board and is able to impose its will upon the Council, but the Council does not provide services entirely to the County.	Discrete	Cochise County Workforce Development, Inc. 77 Calle Portal, Suite C-220, Sierra Vista, AZ. 85635

## Note 1 – Summary of Significant Accounting Policies (continued)

### B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the County as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements—provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided and
- operating grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—provide information about the County's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

## **Note 1 – Summary of Significant Accounting Policies (continued)**

### **B. Basis of Presentation (Continued)**

Proprietary fund operating revenues and expenses result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values.

*The County reports the following major governmental funds:*

*The General Fund*—is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*The Capital Projects Fund*—accounts for resources to be used for acquisition or construction of major facilities and automation and communications projects of the County.

*Highway and Streets Fund*—accounts for the construction and maintenance of the County's surface transportation system in a reasonably safe and cost-effective manner.

*The County reports the following major enterprise funds:*

*The Cochise Health Systems (CHS) Fund*—accounts for a Medicaid long-term care health maintenance organization (HMO) under contract with the Arizona Health Care Cost Containment System (AHCCCS). CHS provides case management as well as a full range of acute and long-term medical services for elderly and disabled members located in Cochise, Graham and Greenlee Counties. The Arizona Long Term Care System (ALTCS), a state agency, determines eligibility for members assigned to CHS.

*The Solid Waste Operations Fund*—accounts for high-quality, cost-effective, and environmentally safe, solid waste management services in conformance with the terms of the intergovernmental agreements between the County and participating cities. The services include the operation of a regional solid waste landfill, rural and urban transfer stations, and the hauling of solid waste between the transfer stations and the landfill.

*The County reports the following fund types:*

*The internal service funds*—account for automotive maintenance and operation, insurance, telecommunications, and information technology services provided to County departments or to other governments on a cost-reimbursement basis.

*The investment trust fund*—account for pooled assets held and invested by the County Treasurer on behalf of County departments and other governmental entities.

*The agency fund*—account for assets held by the County as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, community college districts, and special districts.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### **C. Basis of Accounting**

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

The County's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The County has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

### **D. Cash and Investments**

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 1 - Summary of Significant Accounting Policies (continued)**

**E. Inventories**

Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. The amounts at hand at June 30, 2003, were immaterial, and therefore are not included in the financial statements.

**F. Property Tax Calendar**

The County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

**G. Capital Assets**

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All		
Construction on progress	All		
Buildings	\$ 10,000	Straight-line	40 years
Machinery and equipment	\$ 5,000	Straight-line	5-20 years
Improvements other than buildings	\$ 5,000	Straight-line	5-40 years

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 1 - Summary of Significant Accounting Policies (continued)**

**H. Investment Income**

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

**I. Compensated Absences**

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, for employees who have accumulated at least 15 years of service, sick leave benefits up to 1,040 hours (or 3,120 hours for Ambulance Drivers) do vest and, therefore, are accrued.

**Note 2 – Beginning Balances Restated and Prior Period Adjustments**

As a result of implementing GASB Statement No. 34, the County's governmental fund-type fund balances as of June 30, 2002, have been restated as net assets as of July 1, 2002, on the government-wide Statement of Activities and its Proprietary Funds fund equity have been relabeled net assets as of July 1, 2002, on the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets. Additionally, a correction of an error was made for a prior year understatement of capital assets of \$1,063,491. The reconciliation below summarizes the differences between governmental fund-type fund balances as of June 30, 2002, as previously reported, to net assets as of July 1, 2002, reported on the government-wide Statement of Activities.

Aggregate fund balances of governmental fund types as of	
June 30, 2002, as previously stated	\$25,763,158
Add: Revenue earned but not yet available	690,818
Capital assets, net of accumulated depreciation	26,149,985
Correction of prior year understatement of capital assets	1,063,491
Internal Service Funds net assets	3,572,782
Less: Long-term liabilities	<u>(4,240,382)</u>
Net assets of governmental activities as of July 1, 2002	<u>\$52,999,852</u>

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 2 – Beginning Balances Restated and Prior Period Adjustments (continued)**

Prior period adjustments were made to correct an overstatement of Cochise Health System's expenditures of \$160,875 and to correct an understatement of accumulated depreciation of \$77,940. The net effect of these corrections was to increase proprietary funds' beginning net assets by \$82,935 at July 1, 2002. The following are corrections of errors to the beginning balance of the Proprietary Funds Net Assets:

Aggregate fund equity balances of proprietary fund types as of	
June 30, 2002, as previously stated	\$11,086,759
Correction of overstatement of Cochise Health System's expenditures	160,875
Correction of prior year accumulated depreciation	<u>(77,940)</u>
Net assets of governmental activities as of July 1, 2002	<u>\$11,169,694</u>

Net assets of the discretely presented component units were understated at July 1, 2002 by \$145,259 because the Cochise County Workforce Development, Inc. activities were not reported in the County's financial statements in previous years, and the beginning net assets of the Cochise County Housing Authority was restated by \$73,928 because it was previously not reported as a discretely presented component unit. The effect of these adjustments was an increase of \$219,187 in beginning net assets of the discretely presented component units.

**Note 3 – Stewardship, Compliance, and Accountability**

Deficit fund balances or net assets—At June 30, 2003, the following funds reported immaterial deficits in fund balances or net assets.

<u>Fund</u>	<u>Deficit</u>
Governmental funds:	
Juvenile Probation State Aid Enhancement	\$ 7,100
Diversion Intake	13,401
Adult Probation I.P.S. Grant	26,824
Juvenile Probation Surveillance Grant	2,418
Local JCEF #1	1,125
Proprietary funds:	
Solid Waste Operations	360,685

These deficits resulted from operations during the year, but are expected to be corrected through normal operations or transfers from the General Fund in fiscal year 2004.

**Note 4 – Deposits and Investments**

Arizona Revised Statutes (ARS) authorize the County to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 4 – Deposits and Investments (continued)**

**County Treasurer’s Investment Pool**—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. Those monies are pooled with County monies for investment purposes.

*Deposits*—At June 30, 2003, the carrying amount of the investment pool’s total cash on hand and cash in bank was \$2,178,566, and the bank balance was \$3,270,357. Of the bank balance, \$300,000 was covered by federal depository insurance and \$2,970,357 was covered by collateral held by the pledging financial institution’s trust department or agent in the County’s name.

*Investments*—At June 30, 2003, the investments in the County Treasurer’s investment pool consisted of the following.

	<u>Fair Value</u>
Investment in State Treasurer’s investment pool	\$ 68,707,193
U.S. government securities	20,342,216
Total	<u>\$ 89,049,409</u>

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the County’s name, or were held by the County or its agent in the County’s name.

**Other deposits**—At June 30, 2003, the carrying amount of the County’s total nonpooled cash on hand and cash in bank was \$424,221, and the bank balance was \$1,233,320. Of the bank balance, \$248,289 was covered by federal depository insurance and \$525,406 was covered by collateral held by the pledging financial institution’s trust department or agent in the County’s name; and \$459,625 was uninsured and uncollateralized

**Other investments**—At June 30, 2003, the County’s nonpooled investments consisted of the following:

	<u>Fair Value</u>
Investment in State Treasurer’s Investment Pool	\$ 3,335,035
Total	<u>\$ 3,335,035</u>

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 4 – Deposits and Investments (continued)**

**Cash and Investments Held by Trustee**—At June 30, 2003, the County's cash and investments held by trustee totaling \$9,553,983, were for the Series 2002 Certificates of Participation funding and reserve requirements. The amounts of \$8,666,688, \$3,128 and \$884,167 were for the Acquisition and Construction fund, Lease Payment fund and Reserve fund, respectively. All of the balance consisted of securities held by the counterparty, or by its trust department or agent, but not in the County's name.

A reconciliation of cash and investments to amounts shown on the Statement of Net Assets follows:

Cash and investments:

	County Treasurer's <u>Investment Pool</u>	<u>Other</u>	<u>Total</u>
Cash on hand	\$ 53,242	\$ 5,480	\$ 58,722
Carrying amount of deposits	2,125,324	418,741	2,544,065
Reported amount of Investments	89,049,409	3,335,035	92,384,444
Cash and investments held by trustees		<u>9,553,983</u>	<u>9,553,983</u>
Total	<u>\$ 91,227,975</u>	<u>\$13,313,239</u>	<u>\$104,541,214</u>

Statement of Net Assets:

	Total Primary <u>Government</u>	Component <u>Units</u>	Total Fiduciary <u>Funds</u>	<u>Total</u>
Cash in bank and on hand	\$ 275,932	\$ 148,289	\$ 2,267,662	\$ 2,691,883
Cash and investments held by treasurer	28,309,186	0	60,651,127	88,960,313
Cash and investments held by trustees	9,553,983	0	0	9,553,983
Investments	<u>3,335,035</u>	<u>0</u>	<u>0</u>	<u>3,335,035</u>
Total	<u>\$ 41,474,136</u>	<u>\$ 148,289</u>	<u>\$ 62,918,789</u>	<u>\$104,541,214</u>

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 5 – Property Taxes Receivable**

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office. At June 30, 2003, the uncollected property taxes and related allowances for uncollectibles were as follows:

Fiscal Year	General Fund	Other Governmental Funds	Total Governmental Activities
2003	\$ 760,852	\$ 133,462	\$ 894,314
Prior	261,619	43,004	304,623
	<u>1,022,471</u>	<u>176,466</u>	<u>1,198,937</u>
Less allowances for uncollectibles	355,721	58,388	414,109
Net total	<u>\$ 666,750</u>	<u>\$ 118,078</u>	<u>\$ 784,828</u>

That portion of property taxes receivable not collected within 60 days after June 30, 2003, has been deferred in the fund statements and, consequently, is not included in current-year revenues in the fund statements.

**Note 6– Due from Other Governments**

Amounts due from other governments of \$6,003,556 (\$453,321 for Component Units) at June 30, 2003, include \$599,968 in state-shared revenue from highway user taxes, \$845,413 in state sales tax, \$390,597 in state vehicle license tax, and \$996,038 in county excise tax. The balance of \$3,171,540 represents various grants from state and federal governments.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 7 – Capital Assets**

Capital asset activity for the year ended June 30, 2003, was as follows:

	Primary Government			Balance June 30, 2003
	Balance July 1, 2002 (as restated)	Increases	Decreases	
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,891,387	\$ 0	\$ 91,627	\$ 1,799,760
Construction in progress (estimated cost to complete \$ 9,402,000)	<u>11,300</u>	<u>1,376,670</u>	<u>0</u>	<u>1,387,970</u>
Total capital assets not being depreciated	<u>1,902,687</u>	<u>1,376,670</u>	<u>91,627</u>	<u>3,187,730</u>
Capital assets being depreciated:				
Buildings	21,703,907	146,204	0	21,850,111
Improvements other than buildings	1,272,709	0	0	1,272,709
Machinery and equipment	<u>19,739,260</u>	<u>2,452,091</u>	<u>2,117,914</u>	<u>20,073,437</u>
Total	<u>42,715,876</u>	<u>2,598,295</u>	<u>2,117,914</u>	<u>43,196,257</u>
Less accumulated depreciation for:				
Buildings	5,528,679	411,991	0	5,940,670
Improvements other than buildings	469,101	168,078	0	637,179
Machinery and equipment	<u>8,532,544</u>	<u>1,367,164</u>	<u>796,654</u>	<u>9,103,054</u>
Total	<u>14,530,324</u>	<u>1,947,233</u>	<u>796,654</u>	<u>15,680,903</u>
Total capital assets being depreciated, net	<u>28,185,552</u>	<u>651,062</u>	<u>1,321,260</u>	<u>27,515,354</u>
Governmental activities capital assets, net	<u>\$ 30,088,239</u>	<u>\$ 2,027,732</u>	<u>\$ 1,412,887</u>	<u>\$ 30,703,084</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,591,500	\$ 0	\$ 0	\$ 1,591,500
Construction in progress (estimated cost to complete \$1,875,000)	<u>0</u>	<u>132,998</u>	<u>0</u>	<u>132,998</u>
Total capital assets not being depreciated	<u>1,591,500</u>	<u>132,998</u>	<u>0</u>	<u>1,724,498</u>
Capital assets being depreciated:				
Buildings	4,520,844	0	0	4,520,844
Improvements other than buildings	515,456	0	0	515,456
Machinery and equipment	<u>2,360,295</u>	<u>822,826</u>	<u>342,212</u>	<u>2,840,909</u>
Total	<u>7,396,595</u>	<u>822,826</u>	<u>342,212</u>	<u>7,877,209</u>

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 7 – Capital Assets (continued)**

Less accumulated depreciation for:				
Buildings	\$ 372,367	\$ 86,620	\$ 0	\$ 458,987
Improvements other than buildings	234,306	24,086	0	258,392
Machinery and equipment	<u>1,404,669</u>	<u>181,306</u>	<u>278,236</u>	<u>1,307,739</u>
Total	<u>2,011,342</u>	<u>292,012</u>	<u>278,236</u>	<u>2,025,118</u>
Total capital assets being depreciated, net	<u>5,385,253</u>	<u>530,814</u>	<u>63,976</u>	<u>5,852,091</u>
Business-type activities capital assets, net	<u>\$ 6,976,753</u>	<u>\$663,812</u>	<u>\$ 63,976</u>	<u>\$ 7,576,589</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 722,468
Public safety	81,575
Highways and streets	578,033
Health and welfare	10,953
Education	10,693
Internal service funds	<u>543,511</u>
Total governmental activities depreciation expense	<u>\$ 1,947,233</u>
Business-type activities:	
Cochise Health Systems	12,274
Solid Waste Operations	225,243
Other	<u>54,495</u>
Total business-type activities depreciation expense	<u>\$ 292,012</u>

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 8 – Long-Term Liabilities**

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2003.

	Primary Government			Balance June 30, 2003	Due within 1 year
	Balance July 1, 2002	Additions	Reductions		
Governmental activities					
Certificates of participation payable	\$ 1,720,000	\$9,500,000	\$1,720,000	\$ 9,500,000	\$785,000
Add: Unamortized premium	0	200,354	5,757	194,597	13,818
Total certificates of participation payable	1,720,000	9,700,354	1,725,757	9,694,597	798,818
Capital leases payable	30,828	0	7,357	23,471	12,048
Compensated absences payable	2,489,554	320,016	143,777	2,665,793	141,775
Governmental activities long-term liabilities	4,240,382	10,020,370	1,876,891	12,383,861	952,641
Internal Service Funds:					
Compensated absences payable	0	25,323	8,935	16,388	16,388
Total governmental activities	<u>\$ 4,240,382</u>	<u>\$10,045,693</u>	<u>\$1,885,826</u>	<u>\$12,400,249</u>	<u>\$969,029</u>
Business-type activities:					
Liabilities for closure and postclosure care costs	\$ 1,857,827	\$ 180,462	\$ 0	\$ 2,038,289	0
Compensated absences payable	0	181,956	89,350	92,606	92,606
Business-type activities long-term liabilities	<u>\$ 1,857,827</u>	<u>\$ 362,418</u>	<u>\$ 89,350</u>	<u>\$ 2,130,895</u>	<u>92,606</u>

Certificates of participation—The County has issued certificates of participation that are generally callable with interest payable semiannually to make improvements and renovations to the County administration buildings, and construct an Information Technology building and a County Service Center in Benson. The original amount of certificates issued in prior years was \$3,600,000. During the year, the County issued certificates totaling \$9,500,000 for various projects as stated above.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 8 – Long-Term Liabilities (continued)**

Certificates outstanding at June 30, 2003, were as follows:

<i>Description</i>	<i>Original Amount</i>	<i>Maturity Ranges</i>	<i>Interest Rates</i>	<i>Outstanding Principal</i>
PHS Mortgage, Inc. 2002 Series	\$9,500,000	2003-2017	4.0% to 4.5%	<u>\$ 9,500,000</u>

Certificates of participation (continued)

During the year ended June 30, 2003, the County had monies available to defease the outstanding Series 1996 Certificates of Participation by February 1, 2003. These County proceeds were used to purchase securities that were placed in an irrevocable trust to provide resources for all future debt service payments on the advance-refunded debt. The refunded debt of \$1,500,000 is considered defeased and related liabilities are not included in the County's financial statements. These Certificates have maturity dates through August 1, 2005.

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2003.

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 785,000	\$ 522,444
2005	550,000	331,588
2006	560,000	317,838
2007	575,000	303,838
2008	590,000	288,025
2009-2013	3,275,000	1,123,675
2014-2017	<u>3,165,000</u>	<u>351,675</u>
Total	<u>\$9,500,000</u>	<u>\$3,239,083</u>

Capital leases—The County has acquired office equipment and vehicles in the governmental funds under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 8 – Long-Term Liabilities (continued)**

Capital leases (continued)

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>
Machinery and equipment	\$ 72,170
Less: accumulated depreciation	32,532
Carrying value	\$ 39,638

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2003.

	<b>Governmental Activities</b>
<b>Year Ending June 30</b>	
2004	\$ 12,802
2005	8,621
2006	4,310
Total minimum lease payments	25,733
Less amount representing interest	2,262
Present value of net minimum lease payments	\$ 23,471

Landfill closure and postclosure care costs— State and federal laws and regulations require the County to place a final cover on its Eastern Regional Landfill (ERL) site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. As of June 30, 2002 the ERL was full to capacity and stopped accepting waste. At June 30, 2003, 100% of total closure and postclosure care costs of \$1,771,793 had been recorded on the County's financial statements. The County had not started paying these costs as of June 30, 2003.

In 2002, the County began operating the Western Regional Landfill (WRL). State and federal laws and regulations require the County to place a final cover on its WRL site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The County accrued \$266,496 as a landfill closure and postclosure care liability for the WRL at June 30, 2003. This amount represents the cumulative amount reported to date based on the use of approximately 2.42% percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$10,745,709 as the remaining estimated capacity is filled. The estimated closure date of the WRL landfill is 2042. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2003. The actual cost may be higher due to inflation, changes

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 8 – Long-Term Liabilities (continued)**

Landfill closure and postclosure care costs (continued)

in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

Insurance claims— In 2003, the County dissolved the Cochise County Group Health Trust and established the Cochise Combined Trust (CCT) in partnership with Cochise College. The CCT provides health insurance benefits (comprehensive medical coverage) to County employees and their dependents. The structure can also accommodate other local governments in the region over time thus spreading the risk of partially self-funded health insurance over larger numbers. The pool is financed by member contributions that are structured in the same manner as insurance company premiums.

The risk of loss for health claims is transferred to a third party administrator who pays the claims. The trust is audited annually.

Compensated absences and claims and judgments—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2003, the County paid for compensated absences as follows: 28 percent from the General Fund, 7 percent from major funds, and 65 percent from other funds. The County paid for no claims and judgments during 2003.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 9 – Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by two public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool, which are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 per occurrence for property claims and \$50,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$10 million per occurrence for liability claims. A county must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience rating formula, that allocates pool expenditures and liabilities among the members.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance triennially. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 10 – Operating Leases**

The County leases buildings, office equipment, and vehicles under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$233,886 for the year ended June 30, 2003. The operating leases have noncancelable lease terms of five months to ten years and provide renewal options.

The future minimum rental payments under the operating leases at June 30, 2003, were as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2004	\$ 30,273	\$ 2,360
2005	6,899	
2006	3,100	
Total minimum lease payments	\$ 40,272	\$ 2,360

**Note 11 – Retirement Plans**

Plan Descriptions—The County contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. In addition, the County contributes to the Elected Officials Retirement Plan (EORP), which is not described due to the plan's relative insignificance to the County's financial statements.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 11 – Retirement Plans (continued)**

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Corrections Officer Retirement Plan* (CORP) is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and County employees whose primary duties require direct inmate contact. The CORP is governed by The Fund Manager of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910

(602) 240-2000 or (800) 621-3778

PSPRS and CORP

1020 E. Missouri Ave.  
Phoenix, AZ 85014

(602) 255-5575

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 11 – Retirement Plans (continued)**

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

*Cost-sharing plan*—For the year ended June 30, 2003, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2003, 2002, and 2001 were \$604,497, \$581,682 and \$592,297, respectively, which were equal to the required contributions for the year.

*Agent plans*—For the year ended June 30, 2003, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 15.81 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 3.90 percent.

Annual Pension Cost—The County's pension cost for the two agent plans for the year ended June 30, 2003, and related information follows.

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	15.81%	3.90%
Plan members	7.65%	8.50%
Annual pension cost	\$207,186	\$33,600
Contributions made	\$207,186	\$33,600

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2001, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001, was 20 years.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 11 – Retirement Plans (continued)**

**Trend Information**—Annual pension cost information for the current and two preceding years follows for each of the agent plans.

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2003	\$ 207,186	100%	\$ 0
	2002	266,449	100	0
	2001	282,738	100	0
CORP	2003	33,600	100	0
	2002	31,854	100	0
	2001	32,717	100	0

**Note 12 – Condensed Financial Statements of County Treasurer’s Investment Pool**

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

The County Treasurer’s investment pool is not registered with the Securities and Exchange Commission as an investment company and there is no regulatory oversight of its operations. The pool’s structure does not provide for shares and the County has not provided or obtained any legally binding guarantees to support the value of the participants’ investments.

Details of each major investment classification follow.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 12 – Condensed Financial Statements of County Treasurer’s Investment Pool  
(continued)**

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment in Arizona State Treasurer’s Investment pool	\$ 68,707,193	1.8719%	N/A	\$ 68,707,193
U.S. Government Securities	11,468,120	1.8000%	11/15/2006	11,626,180
U.S. Government Securities	8,500,000	4.8750%	02/15/2012	8,716,036

A condensed statement of the investment pool’s net assets and changes in net assets follows.

Statement of Net Assets

Assets	<u>\$ 91,374,343</u>
Net assets	<u>\$ 91,374,343</u>
Net assets held in trust for:	
Internal participants	\$ 30,033,709
External participants	<u>61,340,634</u>
Total net assets held in trust	<u>\$ 91,374,343</u>

Statement of Changes in Net Assets

Total additions	\$ 255,449,485
Total deductions	<u>254,013,921</u>
Net increase	1,435,564
Net assets held in trust:	
July 1, 2002	<u>89,938,779</u>
June 30, 2003	<u>\$ 91,374,343</u>

**Note 13 – Contingent Liabilities**

Litigation Claims – At June 30, 2003 there were several claims and lawsuits pending against the County, the ultimate outcome of which is unpredictable. Consequently, no provision for any liability has been made.

Cochise County, Arizona  
Notes to Financial Statements  
June 30, 2003

**Note 14 – Interfund Balances and Activity**

The interfund receivables and payables – Interfund balances at June 30, 2003 were as follows:

	Payable to							Total	
	General	Highway and Streets	Nonmajor Governmental	Cochise Health Systems	Solid Waste Operatons Funds	NonMajor Enterprise Funds	Internal Service Funds		
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Systems</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>		
P a y a b l e f r o m	General	\$ -	\$ -	\$ -	\$ -	\$ 172,879	\$ -	\$ 127,351	\$ 300,230
	Capital projects fund							53,667	53,667
	Highway and streets			8,408		231,167	243		239,818
	Non-major governmental funds	280,803			1,971	494,512		57,565	834,851
	Cochise health systems					12,666			12,666
	Solid waste operations funds	146,141	110,377	512,842				78,261	847,621
	Non-major enterprise funds							924	924
	Internal service funds	12,394	-	-	-	-	-	-	12,394
	<b>Total</b>	<u>\$ 439,338</u>	<u>\$ 110,377</u>	<u>\$ 521,250</u>	<u>\$ 1,971</u>	<u>\$ 911,224</u>	<u>\$ 243</u>	<u>\$ 317,768</u>	<u>\$ 2,302,171</u>

The interfund balances resulted from time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers – Interfund transfers for the year ended June 30, 2003 were as follows:

	Transfer to			Total	
	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds		
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>		
T r a n s f e r f r o m	General	\$ 787,763	\$ -	\$ 99,591	\$ 887,354
	Highway and streets	60,711			60,711
	Cochise health systems	190,745	209,255		400,000
	Internal service funds	250,000	-	-	250,000
	<b>Total</b>	<u>\$ 1,289,219</u>	<u>\$ 209,255</u>	<u>\$ 99,591</u>	<u>\$ 1,598,065</u>

**Note 14 – Interfund Balances and Activity (continued)**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**REQUIRED SUPPLEMENTARY INFORMATION**

Cochise County, Arizona  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Budgetary fund balance, July 1, 2002	\$ 8,120,878	\$ 8,120,878	\$ 10,281,565	\$ 2,160,687
Revenues				
Taxes	22,628,793	22,628,793	23,111,424	482,631
Licenses and permits	59,500	59,500	52,708	(6,792)
Intergovernmental	11,624,625	11,624,625	12,836,728	1,212,103
Charges for services	1,822,635	1,822,635	2,189,951	367,316
Fines and forfeits	1,969,100	1,969,100	2,128,177	159,077
Investment income	230,000	230,000	(116,682)	(346,682)
Miscellaneous	-	-	209,250	209,250
Total revenues	<u>38,334,653</u>	<u>38,334,653</u>	<u>40,411,556</u>	<u>2,076,903</u>
Transfers in	387,967	387,967	-	(387,967)
Amount available for appropriation	<u>46,843,498</u>	<u>46,843,498</u>	<u>50,693,121</u>	<u>3,849,623</u>
Expenditures				
General government:				
Assessor	1,441,064	1,441,064	1,329,792	111,272
Attorney	1,673,922	1,673,922	1,546,829	127,093
Board of supervisors	989,050	989,050	819,911	169,139
Elections	262,802	262,802	276,161	(13,359)
Finance	644,179	644,179	638,551	5,628
General government	4,163,815	4,163,815	(1,813,809)	5,977,624
Human resources	1,079,847	1,079,847	1,094,144	(14,297)
Planning and zoning	541,237	541,237	451,023	90,214
Recorder	280,399	280,399	277,602	2,797
Treasurer	945,009	945,009	903,976	41,033
Public defender	1,053,399	1,053,399	910,677	142,722
Legal defender	728,232	728,232	681,064	47,168
Wilcox airport	18,675	18,675	13,598	5,077
Facilities	2,453,237	2,453,237	2,194,551	258,686
Utilities	684,001	684,001	666,666	17,335
Court administration	730,996	730,996	695,652	35,344
Superior court division	755,519	755,519	738,467	17,052
Court security	259,450	259,450	262,456	(3,006)
Mandatory judicial services	281,625	281,625	276,728	4,897
Mandatory indigent defense	652,134	652,134	1,018,107	(365,973)
Justice of peace	1,596,574	1,596,574	1,590,086	6,488
Clerk of superior court	1,143,034	1,143,034	1,138,480	4,554
Adult probation	357,415	357,415	359,207	(1,792)
Juvenile probation	977,892	977,892	938,057	39,835
Sierra Vista constable	139,081	139,081	119,078	20,003
Constables	65	65	35	30
Information technology	1,638,723	1,638,723	1,562,225	76,498
Public safety:				
Sheriff	9,109,184	9,109,184	9,003,309	105,875
Building inspection	480,290	480,290	432,540	47,750
Emergency services	77,598	77,598	76,290	1,308
Juvenile detention	935,434	935,434	931,788	3,646
Juvenile detention medical	88,183	88,183	63,459	24,724
Jail medical	467,063	467,063	75,623	391,440
Jail counselor	65,839	65,839	58,900	6,939
Medical examiner	180,000	180,000	180,000	-
Sanitation:				
Sanitation	538,471	538,471	473,134	65,337
Health and welfare				
Health	1,287,341	1,287,341	1,098,239	189,102
Health and social services	7,810,675	7,810,675	7,892,949	(82,274)
Education				
School superintendent	312,044	312,044	294,033	18,011
Total expenditures	<u>46,843,498</u>	<u>46,843,498</u>	<u>39,269,578</u>	<u>7,573,920</u>
Transfers out	-	-	887,354	(887,354)
Total charges to appropriations	<u>46,843,498</u>	<u>46,843,498</u>	<u>40,156,932</u>	<u>6,686,566</u>
Budgetary fund balance, June 30, 2003	\$ -	\$ -	\$ 10,536,189	\$ 10,536,189

See accompanying notes to budgetary comparison schedules.

Cochise County, Arizona  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Highway and Streets Fund  
 Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Budgetary fund balance, July 1, 2002	\$ 2,885,261	\$ 2,885,261	\$ 3,364,515	\$ 479,254
Revenues				
Intergovernmental	8,906,500	8,906,500	8,784,727	(121,773)
Charges for services	597,500	597,500	389,684	(207,816)
Investment income	90,000	90,000	(31,754)	(121,754)
Miscellaneous	-	-	17,182	17,182
Total revenues	<u>9,594,000</u>	<u>9,594,000</u>	<u>9,159,839</u>	<u>(434,161)</u>
Transfers in	-	20,000	-	(20,000)
Amount available for appropriation	<u>12,479,261</u>	<u>12,499,261</u>	<u>12,524,354</u>	<u>25,093</u>
Expenditures				
Highways and streets:				
Highway and streets	12,440,885	12,464,483	10,284,705	2,179,778
Other protection	<u>38,376</u>	<u>34,778</u>	-	<u>34,778</u>
Total expenditures	<u>12,479,261</u>	<u>12,499,261</u>	<u>10,284,705</u>	<u>2,214,556</u>
Transfers out	-	-	60,711	(60,711)
Total charges to appropriations	<u>12,479,261</u>	<u>12,499,261</u>	<u>10,345,416</u>	<u>2,153,845</u>
Budgetary fund balance, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,178,938</u>	<u>\$ 2,178,938</u>

See accompanying notes to budgetary comparison schedules.

Cochise County, Arizona  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
Year Ended June 30, 2003

**Note 1 - Budgeting and Budgetary Control**

A.R.S. require the County to prepare and adopt a balanced budget annually for each governmental fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is not employed by the County during the year. However, the County must encumber amounts necessary and available to pay liabilities outstanding for goods or services received but unpaid at June 30, after which warrants may be drawn against the encumbered amounts for 60 days immediately following the close of the fiscal year. After 60 days, the remaining encumbered balances lapse.

Cochise County, Arizona  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2003

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
6/30/03	\$13,053,585	\$ 15,405,210	\$ (2,351,625)	84.7%	\$2,718,609	86.5%
6/30/02	13,500,548	14,521,441	(1,020,893)	93.0	2,709,845	37.7
6/30/01	13,819,208	12,617,044	1,202,164	109.5	2,679,198	-

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ((a-b)/c)
6/30/03	\$ 4,031,075	\$ 3,357,476	\$ 673,599	120.1%	\$1,716,580	-
6/30/02	3,929,947	2,975,558	954,389	132.1	1,638,829	-
6/30/01	3,930,055	2,376,167	1,553,888	165.4	1,463,174	-

## **SUPPLEMENTARY INFORMATION**

**COCHISE COUNTY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass- Through Grantor's Number	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed through the Arizona Department of Health Services Special Supplemental Food Program for Women, Infants and Children	10.557	KR02-1592	\$ 521,947
Passed through the Arizona State Treasurer Schools and Roads - Grants to States	10.665	NONE	93,125
Total U.S. Department of Agriculture			<u>615,072</u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
Section 8 Cluster Section 8 Rental Voucher Program	14.871		1,625,902
Passed through the Arizona Department of Commerce Community Development Block Grants	14.228	KR02-0084	56,303
Total U.S. Department of Housing and Urban Development			<u>1,682,205</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Passed through the Arizona Department of Public Safety Crime Victim Compensation	16.575	VA-02-019	45,680
Crime Victim Assistance	16.576	VC-02-050	13,045
Crime Victim Assistance		200-VA-GX-004	29,878
Byrne Formula Grant Program	16.579	PC-050-02	125,178
		AC-080-02	137,447
		CRI-01-032	16,896
		NONE	56,580
Local Law Enforcement Block Grant	16.592		81,518
Rural Domestic Violence & Child Victimization	16.589		157,133
Passed through the State of Arizona Governor's Community Policy Office Juvenile Accountability Incentive Block Grant	16.523	JB-GRA-02-4182-02	56,413
Community Prosecution and Project Safe Neighborhoods	16.609		25,275
Southwest Border Local Assistance Initiative	16.UNKNOWN		1,002,816
Passed through the State of Arizona Department of Emergency and Military Affairs Equipment Grant Program	16.007	NONE	35,547
Total U.S. Department of Justice			<u>1,783,406</u>

(Continued)

**COCHISE COUNTY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**  
**(Continued)**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass- Through Grantor's Number	Expenditures
<b><u>U.S. DEPARTMENT OF LABOR</u></b>			
Passed through the Arizona Department of Economic Security Workforce Investment Act	17.250	E5700003	\$ 1,098,931
Total U.S. Department of Labor			<u>1,098,931</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Passed through the Arizona Department of Transportation Airport Improvement Program	20.106	E2F44	73,790
Passed through the Arizona Department of Emergency and Military Affairs Emergency Preparedness Planning Grant	20.703	NONE	5,685
Passed through the Arizona Department of Public Safety Enhanced Highway Safety Enforcement Program	20.600	2002-410-001 NONE	45,270 37,281
Total U.S. Department of Transportation			<u>162,026</u>
<b><u>U.S. DEPARTMENT OF LIBRARY SERVICES</u></b>			
Passed through the State of Arizona Department of Library Archives and Public Records The Children in Poverty Program	45.310	NONE	26,867
Total U.S. Department of Library Services			<u>26,867</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed through the Arizona Supreme Court Title I Program for Disadvantaged Children	84.010	NONE	49,218
Passed through the Arizona Department of Education IDEA-Seamless Transition	84.027	HO27AO10007	12,356
Title III Consortium	84.365A	03FASENG-370666-01A	19,709
Total U.S. Department of Education			<u>81,283</u>

(continued)

**COCHISE COUNTY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**  
**(Continued)**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Through Grantor's Number	Expenditures
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
Passed through the Southeastern Arizona Governments Organization			
Special Programs for the Aging-Title III Part B	93.044	02-12	\$ 221,501
Passed through the Arizona Department of Health Services			
Immunization Vaccine Program	93.268	HG352189-0	353,095
Preparedness & Response for Bio-Terrorism	93.283	252033	239,756
HIV Prevention	93.940	152010	44,003
Preventive Health and Health Services			
Block Grant	93.991	152038	65,279
HIV Care Formula Grants	93.917	152060-0	158,071
Preventive Health Services - Sexually			
Transmitted Diseases Control Grants	93.977	052006-1	4,659
Maternal and Child Health Services			
Block Grant to the State	93.994	961121	34,954
		HG361135	12,320
Passed through the Arizona Department of Economic Security			
Child Support Enforcement	93.563	E7202003	128,649
Total U.S. Department of Health and Human Services			<u>1,262,287</u>
<b><u>OFFICE OF NATIONAL DRUG CONTROL POLICY</u></b>			
Passed through the Pima County Sheriff's Department			
High Intensity Drug Trafficking Areas	07.C1324741002	I1PSAP549	515,754
Total Office of National Drug Control Policy			<u>515,754</u>
<b><u>U.S. DEPARTMENT OF THE INTERIOR</u></b>			
Payment in Lieu of Taxes - Section I	15.226		2,069,423
Passed through the Arizona State Treasurer			
Taylor Grazing	15.UNKNOWN	NONE	7,196
Total U.S. Department of the Interior			<u>2,076,619</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 9,304,450</u></b>

**COCHISE COUNTY**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**

**Note 1 - Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cochise County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2003 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number was used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" was used.

**Note 3 - Subrecipients**

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Workforce Investment Act	17.250	\$ 1,098,931

## **SINGLE AUDIT REPORTS**

**THIS PAGE LEFT BLANK INTENTIONALLY**

**Independent Auditors' Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Basic Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Auditor General of the State of Arizona

The Board of Supervisors of  
Cochise County, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cochise County, Arizona, as of and for the year ended June 30, 2003, which collectively comprise the Cochise County, Arizona's basic financial statements, and have issued our report thereon dated April 30, 2004, which was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 34 and due to our reliance on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Cochise County, Arizona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 03-01. We also noted certain immaterial instances of noncompliance that we have reported to management of Cochise County, Arizona, in a separate letter dated April 30, 2004.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Cochise County, Arizona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting

Cochise County, Arizona  
Page Two  
April 30, 2004

would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We, and the reports of other auditors, noted no matters involving the internal control over financial reporting and its operation that we and the other auditors consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Cochise County, Arizona in a separate letter dated April 30, 2004.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the County's Board of Supervisors, federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CHRISTENSEN, GALE & MCLAREN, LLP

April 30, 2004

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of  
Cochise County, Arizona

**Compliance**

We have audited the compliance of Cochise County, Arizona, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003, except for that portion of the Cochise County Workforce Development, Inc., that administers the workforce investment act program. The Cochise County Workforce Development, Inc. was audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the compliance of that entity with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement, is based solely on the reports of the other auditors. Cochise County, Arizona's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cochise County, Arizona's management. Our responsibility is to express an opinion on Cochise County, Arizona's compliance based on our audit and the reports of other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cochise County, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit, and the reports of other auditors provide a reasonable basis for our opinion. Our audit, and the reports of other auditors, does not provide a legal determination on Cochise County, Arizona's compliance with those requirements.

In our opinion, based on our audit and the reports of the other auditors, Cochise County, Arizona, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### **Internal Control Over Compliance**

The management of Cochise County, Arizona, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cochise County, Arizona's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We, and the reports of other auditors, noted no matters involving the internal control over compliance and its operation that we and the other auditors consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Cochise County Board of Supervisors, federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CHRISTENSEN, GALE & MCLAREN, LLP

April 30, 2004

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2003**

**Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:		<u>Unqualified</u>	
		<b>Yes</b>	<b>No</b>
Material weakness identified in internal control over financial reporting?	_____		<u>X</u>
Reportable conditions identified not considered to be material weaknesses?	_____		<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	<u>X</u>		_____

***Federal Awards***

Material weakness identified in internal control over major programs?	_____		<u>X</u>
Reportable conditions identified not considered to be material weaknesses?	_____		<u>X</u> (None Reported)
Type of auditor's report issued on compliance for major programs:			<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	_____		<u>X</u>

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Food Program for Women, Infants and Children
14.871	Section 8 Rental Voucher Program
16.UNKNOWN	Southwest Border Local Assistance Initiative
17.250	Workforce Investment Act
07.C1324741002	High Intensity Drug Trafficking Areas
93.268	Immunization Vaccine Program
15.226	Payment in Lieu of Taxes – Section I

Dollar threshold used to distinguish between Type A and Type B programs:		<u>\$ 300,000</u>	
Auditee qualified as low-risk auditee?	_____		<u>X</u>

***Other Matters***

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>		_____
---	----------	--	-------

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2003**

**Financial Statement Findings**

**03-01**

**The County did not Adequately Insure or Collateralize their Deposits in Bank**

The County had \$1,233,320 in “other deposits” in outside bank accounts. Of this balance at June 30, 2003 \$459,625 was uninsured and uncollateralized as explained in Note 4 to the financial statements. The County is required by A.R.S. 35-323G to have their bank account balances collateralized by the financial institution if the balances are not fully insured.

We recommend the County collateralize these outside bank balances that exceed the standard FDIC insurance coverage of \$100,000 to comply with *Arizona Revised Statutes*.

**COCHISE COUNTY**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2003**

**Federal Award Findings and Questioned Costs**

NONE.

**COCHISE COUNTY**  
**Correction Action Plan**  
**Year Ended June 30, 2003**

**Financial Statement Findings**

**01-01**

**The County did not Adequately Insure or  
Collateralize their Deposits in Bank  
Contact Person: Robert Pender, Finance Director  
Phone Number (520) 432-8381  
Anticipated completion date: June 30, 2005**

Recommendation: To comply with A.R.S. 35-323G, the County should ensure that all deposits in banks that are not fully insured must be collateralized by the bank.

**Action taken:**

All of the County's outside bank accounts will be re-evaluated to verify the need for a separate account. Where there is a legitimate business reason for the outside accounts, they will either be maintained in a bank or banks that provide collateral or distributed among banks to ensure that the balance in any one bank does not exceed the insured level.



County of Cochise  
P.O. BOX 225  
BISBEE, ARIZONA 85603

Fax (520) 432-8398

Finance Director  
Email: [lbacke@co.cochise.az.us](mailto:lbacke@co.cochise.az.us)

April 30, 2004

Ms. Debra K. Davenport  
Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that have not been corrected.

Sincerely,

Lois Backe  
Finance Director

**Cochise County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2003**

**Status of Federal Award Findings and Questioned Costs**

**CFDA No.: 14.871 Section 8 Housing Choice Vouchers  
U.S. Department of Housing and Urban Development  
Finding: 01-03  
Status: Fully corrected.**

**CFDA No.: 14.871 Section 8 Rental Voucher Program  
U.S. Department of Housing and Urban Development  
Finding: 02-02  
Status: Fully corrected.**

**CFDA No.: 93.563 Child Support Enforcement  
U.S. Department of Health and Human Services  
Finding: 02-03  
Status: No Longer Valid.**

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement. The Fixed Asset inventory system is in place and there has been no effect, related to these finding, on any other federal and state programs. This federal program required other supplemental information that the County did not have at September 30, 2002.

**CFDA No.: 93.563 Child Support Enforcement  
U.S. Department of Health and Human Services  
Finding: 02-04  
Status: No longer valid**

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.

**CFDA No.: 93.563 Child Support Enforcement  
U.S. Department of Health and Human Services  
Finding: 02-05  
Status: No longer valid**

As of September 30, 2002, the County's contract with the Department of Economic Security (DES) for the operation of the Child Support Enforcement Program was terminated. The program is now operated by a DES contractor with no County involvement.